Towards a smarter state*

A joint programme from ippr and PricewaterhouseCoopers
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Introduction

What role should the state play? What is the appropriate relationship between the state, markets, citizens and society? How should public services be managed, held to account and delivered? How can the state decentralise and redistribute power to individuals, communities and local government?

A major debate about the role of the state has opened up in British politics that looks set to define and frame the policy agendas of the major political parties in the run up to the next general election and beyond. Although this debate pre-dates the financial crisis and the deepening recession that has engulfed the economy, such developments will have a profound impact on public services and have already begun to catalyse a fundamental reappraisal of the state, to which all parties must respond.

Traditional accounts of ‘big state versus little state’ are giving way to a more sophisticated set of perspectives on how the state might be transformed: the Labour government has recently set out its vision for how the state could be made more flexible, strategic and empowering1, while the Conservative Party is developing ideas for how the state needs to be reformed to function in a ‘post-bureaucratic age’2.

These competing accounts of the role of the state must also be reconciled with a number of social and cultural trends that are changing the environment in which government and public services operate.

To help inform and facilitate this debate ippr and PricewaterhouseCoopers LLP (PwC) have launched a major new programme of work that aims to set out the practical steps that are needed to deliver a smarter, more effective state.

The programme draws on ippr and PwC’s unique strengths and experiences, combining policy and technical expertise, with the insights gained from practitioners who work across the public, private and voluntary sectors. Throughout the programme we will engage with public service professionals and users to ensure that our research is informed by the experience of those who provide and depend on public services.

1 Building Britain’s Future (HM Government, 2009) and Working Together – Public Services on Your Side (Cabinet Office, 2009)
2 Raising the bar, closing the gap (Conservative Party, 2007)
Coping with austerity: the state and public services in a recession

The global economic downturn and recession in the UK is already having a major impact on our public services. Public spending will need to be reined in, heralding an era of budget constraints and tough policy choices, while rising unemployment will create new insecurities in society, and new pressures for government to address. The challenge of getting people into work, for instance, inevitably becomes much harder during a recession, while crime may rise as economic growth recedes.

Having become accustomed to sustained economic growth and real terms increases in spending on public services over the last decade, government now finds itself in a much more precarious fiscal position with an explosion of public sector debt. Worsening economic conditions have put the UK’s public finances under severe strain. In the April 2009 Budget, the Treasury projected that the budget deficit would rise to a post-war record of 12.4% of GDP (£175 billion) in 2009/10 and that public debt would head up towards around 80% of GDP by 2015. To put this into perspective, this is the highest level since the early 1960s when the UK was still paying off its debts from the Second World War.

The Treasury has outlined plans to halt the rise in the debt to GDP ratio and restore current budget balance by 2017/18 through a combination of tax rises and restraints on public spending growth. Many commentators have argued that these plans are not fully credible. Firstly, they rely on relatively optimistic economic growth forecasts and secondly just over half of the proposed fiscal tightening is not due until the four years after 2013/14, but with no details as to how this will be achieved. In addition, there is a longer term challenge of meeting the potential costs to the taxpayer of an ageing population.

Predictably, the political parties are fighting each other with claims and counter-claims as to how they will best manage the public finances in future years. In the run-up to a general election it is important that the parties present their case in an honest and transparent way and set out the principles that will underpin future tax and spending decisions. How the fiscal position is handled will say a lot about the sort of society we want.

Rising public expectations and the growing cost of some forms of provision will mean closing the fiscal gap will undoubtedly present a challenge for whoever is in power. However, these adverse conditions may drive a range of innovative policy responses that succeed in both reducing costs and improving outcomes. The state of public finances could, for example, drive reform through a renewed focus on third and private sector collaboration and through greater decentralisation and citizen empowerment. To take a recent example the government has launched a number of Total Place pilots which aim to investigate how savings can be achieved and services improved through greater collaboration between services at a local level.

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3 PricewaterhouseCoopers’ UK Economic Outlook, July 2009
4 This is the budget balance excluding net public investment, which should be non-negative on a cyclically-adjusted basis in order to meet the Golden Rule of borrowing only to invest. This rule has been temporarily suspended, but Treasury plans are based on meeting the Golden Rule again from 2017/18 onwards.
5 See Strengthening Local Democracy (CLG 2009)
The governing context – the state needs to anticipate and adapt to social change

Before the recession it was clear that the role of the state needed to adapt and respond to a number of long-term challenges arising from social, economic, demographic, environmental, and technological change:

- Citizens are much less deferential to authority than in the past and much more likely to demand a high level of service from local providers;

- In a consumer society expectations of service quality, generated from daily experience of buying goods in the private sector, are much higher and likely to continue to increase;

- Rapid technological change means that citizens expect to be able to transact services easily on-line. Digital technology also vastly reduces the cost of service-to-citizen and citizen-to-citizen interaction, opening up new opportunities for involving citizens in the design and delivery of services and the achievement of outcomes;

- Globalisation demands high performing public services that enable UK citizens to compete internationally. Globalisation will also see society become ever more diverse, meaning that providers need to keep up with a changing population and cultural needs of local residents;

- Demographic changes will impinge hugely on the demand for particular services; an ageing population will need higher quality adult social care; demand for the treatment of chronic illnesses will increase; and changing patterns of family life will mean that housing and childcare provision will need to adapt;

- Tackling climate change will put public services under pressure to reduce carbon emissions as well as drive discussion about the responsibility of individuals versus the state;

- High and persistent levels of inequality require more effective interventions from the state to tackle the underlying causes of inequalities;

- Falling levels of trust with state institutions mean that government has to work harder than it once did to earn and sustain legitimacy for its decisions.

In addition to these social, economic and cultural drivers the state also has to function in an era of ‘indirect government’, that works through, and in partnership with, a range of public, private, and voluntary organisations, managing a diverse array of delivery chains. The ship of state, it has been argued, has become a flotilla, and co-ordination and ‘joined-up government’ represents the holy grail of public management.

To make things more challenging the state is increasingly confronted by ‘wicked issues’ – like climate change, anti-social behaviour, family breakdown, and obesity – which require collaborative approaches and which need to be tackled in partnership with citizens and communities themselves, and which often require people to change their behaviour. A focus on outcomes – rather than inputs and outputs – and the belief in designing policy around people’s experiences is also forcing the state to adapt approaches and interventions.
Public services since 1997

Since coming to power in 1997 Labour have, in return for substantial investment, enacted a number of radical reforms to public services. The government was determined to reverse the years of under-investment in public services. Total managed expenditure increased from 36.3% of GDP in 1999/00 to over 43% in 2008/09. Health received the largest increase in this period, rising from 5.2% to 7.7% of GDP, although education and public safety also increased their share, with education spending rising from 4.5% of GDP to 5.8% and spending on public order and safety from 1.9% to 2.4%.

Broadly speaking there have been four phases of public service reform since 1997:

- **Phase 1** focused on top-down initiatives from the centre, with the explicit introduction of clear national standards and targets to drive up performance. Examples include the introduction of numeracy and literacy hours in schools.

- **Phase 2** attempted to drive reform through the use of choice, competition mechanisms, and the diversification of service providers (involving a greater role for the private and voluntary sectors). Examples include patient choice in health and the creation of Academy schools in education.

- **Phase 3** has prioritised personalisation and citizen empowerment. Examples include reform of GPs’ opening hours, the promise of one to one tuition in schools and individual budgets in social care.

- **Phase 4**, currently taking place, continues to build on the theme of personalisation and citizen empowerment but also stresses the need to develop a new relationship with the public sector workforce and a less prescriptive and more strategic role for Whitehall. Most recently the government has suggested that targets and central direction should be replaced by a set of citizen entitlements.

This combination of investment and reform has led to a number of significant improvements in outcomes, most notably the dramatic reduction in hospital waiting lists and significant improvements in literacy and numeracy standards in primary schools. Positive trends have been achieved in many key outcomes that are central to life chances, such as: life expectancy; exam results; standardised mortality ratios for cancer and coronary heart disease; and fear of crime. There has also been huge investment in public service infrastructure with the building or renovation of many schools and hospitals.

According to the 2009 British Social Attitudes (BSA) survey the public is now more satisfied with the National Health Service than at any time since 1984. Labour has also expanded public services into new areas, such as early years and family support, where it has established new children’s centres. Perhaps most significantly the government can take considerable credit for forging a political consensus that supports continued improvements in public services.

In other areas, however, the results have been less promising: in health there has been relatively little progress in reducing inequalities between socio-economic groups; and in education there remains a stubborn attainment gap between pupils from different social class backgrounds. Research also shows that some issues such as reducing re-offending or improving adult skills have seen frustratingly little progress. Outcomes have improved, but complex outcomes have improved more slowly.

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8 Public Expenditure Statistical Analyses 2009 (HM Treasury 2009)
6 Building Britain’s Future (HM Government, 2009)
7 See Public Services at the Crossroads (ippr 2007)
6 British Social Attitudes Survey: the 25th Report (BSA 2009)
A number of more general observations have been made about the government’s overall approach to public service reform that need to be considered\textsuperscript{10}. These include:

- Recognition that record-levels of investment in public services combined with reform has not yielded equivalent improvements in outcomes, particularly in terms of tackling the underlying causes of social problems. Too often the state gets involved after problems arise, instead of focusing on early intervention and prevention. For example, money is still predominantly focused on reactive services such as hospitals and the police. Policies designed to change personal behaviour, which are increasingly recognised as critical to improving outcomes, remain in their infancy.

- In some important areas like health and policing, research has found that public sector productivity has not increased in line with additional funding. This suggests the need to focus more on the way services are delivered.

- Power has been concentrated at the centre and not sufficiently shared between different tiers of government, notably local government and their users. Despite localist initiatives in recent years, Labour has intensified the post-war trend of centralisation, and largely failed to encourage pluralist and decentralised solutions. Centralisation has restricted the flexibility of local service providers to respond to people’s needs.

- Reform has concentrated ‘down-stream’ on schools and hospitals and not ‘up-stream’ on Whitehall and central government. Consequently, the ‘centre’ has been only partially reformed.

- Parts of the public service workforce, especially in health, have become disenchanted and disillusioned with top-down reform. Government has not done enough to listen and learn from the front-line. Elements of the workforce have been left feeling demoralised which has undermined public service delivery.

- Not enough has been done to personalise public services around the user, for example in terms of harnessing the opportunities provided by new technology, or to empower citizens more meaningfully.

- Significant emphasis has been placed on the choice and competition agenda without a clear account of the circumstances in which quasi-markets are most likely to generate improvements. BSA data suggests that the public supports greater choice, especially in health and education, but appears to have little enthusiasm for these services being run by private or voluntary sector organisations\textsuperscript{11}.

- Above all perhaps, public service reform tended to concentrate on structures, not relationships. Reform has been too often mechanical, top-down, and dependent on public institutions to fix problems, and has failed to focus on understanding and improving the relationships between government (national and local), services (public, private, the third sector, and the workforce) and users themselves (citizens, families and communities). What we have learnt from over a decade of public service reform is that getting these relationships right is crucial to improving outcomes.

\textsuperscript{10} The government has acknowledged some of these in its recently published report Working Together: Public Services on your side.
\textsuperscript{11} British Social Attitudes Survey: the 25th Report (BSA 2009)
Recently the Conservative Party has started to set out its thinking on public service reform, which is shaped by the idea that society is entering a ‘post-bureaucratic age’. At the heart of this agenda is a desire to radically redistribute power from the state and government to individuals and communities. David Cameron has said: ‘we are entering a new era of personal responsibility, choice and local control. People power is replacing state power.’¹² This approach rejects top down central control, arguing that the state ‘crowds out’ innovation and undermines individual autonomy, and advocates much greater involvement of social enterprises, voluntary groups, and the private sector in public service delivery. The Conservatives argue that there is a role for the state but that there are clear limits to what it can achieve and that it is better to give individuals control over their lives, thereby reducing dependency on the state.

Some concrete policy ideas have been proposed: in education the Conservatives want to open up the supply-side by allowing parents and communities to open and run schools themselves; in health they have argued for re-empowering the professionals; and in policing they would like to make local forces directly accountable to citizens.

But in other crucial respects important questions remain unanswered, for instance:

- How is it possible to decentralise power to individuals and communities and guarantee equity?
- Is it possible to ensure that choice operates in a way that is fair to all – for example might greater parental choice in education run the risk of creating high levels of segregation along lines of social class?
- Is there sufficient capacity in third sector organisations to cope with the pressures of extensive public service delivery? Will a stronger role for the third sector lead to more bureaucracy?
- Is there a public appetite for radical empowerment? For instance do parents have the time and inclination to set up schools?

¹² See the foreword to Raising the bar, closing the gap (Conservative Party, 2007)
Towards a smarter state

The state has to be re-made and re-interpreted by every generation. The purpose of this programme is to ask the difficult questions and look at potential solutions. What should the smarter, more effective state look like? And how can the change needed to deliver this be successfully implemented? Over the course of the programme, we will explore a variety of key themes.

A smaller, more strategic centre

The role of central government has to change. Whitehall should cease to micro-manage public services and enable them to become more innovative and better able to respond to local priorities and circumstances. Its role should be to set clear national minimum standards and entitlements, and act as the guarantor of them, intervening only in exceptional circumstances. The centre has a role to play in creating the framework for successful delivery, building skills and capabilities across the public service and equipping citizens with the right information. It must play to its strengths, not its weaknesses. These include: acting as a locus for sharing knowledge and learning; fostering and incentivising innovation; empowering professionals and users; and providing leadership.

- What is the comparative advantage of central government?
- How can the centre best guarantee minimum standards and national entitlements?
- When should it intervene – and when should it stand back?
- How do you shrink the size of the centre?
- How should the centre be re-organised?
- How can it become better at collaboration?
- What skills and capabilities will civil servants need to act strategically?
- How can Whitehall be made more permeable, less hierarchical, and more open to ideas from the front-line?

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11 IPPR recommended replacing targets with a set of entitlements in Public Service at the Crossroads (2007). This idea is now being developed by the government see Building Britain’s Future (HM Government, 2009)
The decentralised state

There is widespread agreement that the limits of the command-and-control state have been reached and that power needs to be redistributed. Since preferences and needs, as well as costs of delivering services, vary between areas, localism can ensure that services are tailored to local needs and that scarce resources are efficiently allocated. However, there remain a number of barriers to greater decentralisation. Firstly, the centre needs to be convinced that those at the local level are ready to take up the baton. Secondly, there are concerns about the public’s hostility to ‘post-code’ lotteries and a belief that localism will lead to unacceptable variation in outcomes, creating new inequalities. Thirdly, our political culture tends to hold central government ministers responsible for all aspects of delivery, raising the concern that even if ministers let go they will still be blamed for things when they go wrong. A recently launched Smarter State research project, ‘Who’s accountable?’, explores public attitudes to accountability in public services.

- How should central-local relations be reconfigured? Which functions should be devolved and to what level?
- What are the barriers to greater localism and how can they be overcome?
- What approach should be adopted – further incrementalism or big bang?
- How can we decentralise and redistribute power and ensure fairness and equity?
- If local organisations are to be less accountable to the centre how can accountability at the local level be improved?

Smarter delivery

The causes of problems such as educational inequality are complex and difficult and go beyond the remit of individual service providers. The root causes of poor educational attainment among children, for example, far exceed the reach of schools, running into child development in the early years, family background, peer group expectations, the opportunities available for employment and the aspirations they generate. Tackling these difficult and intractable problems requires a range of interventions and action from the state, the voluntary and private sectors, as well as from individuals, communities and families.

The state therefore needs to act in partnership with a number of other stakeholders to ensure effective delivery and to improve outcomes. Diversifying provision has raised important questions in relation to how the state ensures accountability and equity. Partnerships tend to blur lines of accountability. These issues are likely to become more salient with a push towards commissioning non-state organisations to deliver outcomes, and a greater emphasis on involving the private and voluntary sectors.

Greater diversity and partnership working also places responsibility on government to provide effective co-ordination: the state can no longer act like a drill sergeant, it needs to behave more like a symphony conductor. Achieving more holistic and joined-up interventions, however, will require new skills as well as reform to the funding models that underpin existing silos and inhibit cross-cutting initiatives.
Public institutions, especially at a local level, have an important role to play in acting as a co-ordinating hub for such joined-up interventions. This may require new institutions – such as better youth services to help young people make the transition to adulthood – or it may involve using existing front-line institutions such as schools, health centres and local libraries, acting in more imaginative ways.

For example, schools could be used to provide education for adults and parents, as well as children. This suggests the need to re-think the traditional role performed by state institutions in their local communities.

Better delivery demands that government enables people to help themselves more. President Obama argued the government is but one actor, individuals themselves can help achieve better outcomes if they act more responsibly. Outcomes in health and education, for example, are critically determined by the private behaviours of individuals. The whole area of personal responsibility and behavioural change is one which has become central to public service reform debate and is the subject of great controversy. Public services, politicians and local communities need to think about where and when it is legitimate to seek behavioural change, both in their own and in the wider public interest – and what are the most effective ways of doing this.

It also raises questions about where the state should and should not legitimately intervene – the realm of parenting and the family have traditionally been viewed as part of the private sphere, in which the state gets involved only in extraordinary circumstances. But this is now being questioned.

- Which services should be provided directly by the state – and which should be the job of others?
- How can the state effectively commission for outcomes – and will markets respond? When and at what level is an outcomes-based process appropriate? What are the benefits and the risks?
- What is the right role for the third sector – where can it add most value? How can the state mobilise and support third sector involvement most effectively?
- What should front-line public service institutions look like in the years to come?
- What issues should be addressed by the state and its agencies and which should be left to personal responsibility?
- What role should individuals and communities play in public service delivery? How should government harness their input?
Smarter funding

The prospect of a tighter fiscal climate will inevitably involve a reassessment of spending priorities and will also trigger debates about who should pay for public services. It should also provoke a wider appraisal of how the state spends money. Recent experiments with individual budgets in social care suggest the need to explore other ways in which the traditional funding model of rationing resources through institutions might be reformed. The need to incentivise holistic approaches will also require reform to the way in which resources are allocated to individual departments and agencies rather than to cross-cutting programmes.

The current spending climate should also renew interest in funding for preventative interventions, as opposed to funding at the reactive end. Policy interventions based on behaviour change can be significantly more cost-effective than traditional service delivery. The Wanless Report argued that it is far more cost effective to encourage people not to smoke or drink excessively in the first place, rather than to pay for their treatment once they have become ill from related diseases. Even with neighbourhood policing, policing remains an overwhelmingly ‘fire brigade service’, responding to offences after they have occurred rather than working with other agencies to tackle the causes of crime.

Productivity challenges are also at the forefront of debate. The surge in public investment since 2000 did not result in corresponding gains in productivity – in health productivity actually fell.

The new professionals

Public service reform has traditionally focused on organisational change, and paid less attention to the people who work in them. Public service leaders and the workforce will therefore need to adapt to meet the challenge of ‘indirect government’ and a more devolved, citizen-focused, and contracted-out state. There will be a greater need for collaboration and working across different boundaries and sectors, implying more flexible working practices. Realising the ambitions of personalised public services will also require new skills and capabilities. The workforce needs to be an active participant in any reform process – and not simply its target.

- What should tomorrow’s public service leaders look like?
- What skills, capabilities, and experiences will the workforce require?
- What is the right relationship between the state and the professions, and between the professions and users?
- How can professionals be both empowered and held to account?
Empowered citizens and stronger communities

Personalisation and choice, not to mention democratic renewal, demand greater citizen empowerment. But the state cannot simply devolve responsibility and then walk away. It has a role to play in equipping individuals so they can effectively exercise power once it has been transferred. To do so they need to understand how and when citizens would want empowerment.

A more active and empowered citizenry, is also crucial for improving the way our public services function. But arguably just at the time when government is calling on citizens and communities to help ‘co-produce’ public services it appears that they have less capacity to respond. For instance, fewer people trust each other, local loyalties are weaker than in the past, and collective efficacy in our communities has declined. The left tends to blame this on the market’s ability to generate inequality and a much more individualistic culture, while the right blames it on the welfare state, which it claims crowds out personal responsibility.

- How can citizens be empowered in their relationship with the state?
- Under what conditions are people willing and able to get involved in co-producing public goods with the state?
- Will opening up new forms of participation simply empower those with the loudest voices?
- What real appetite is there for greater empowerment?
- How can policy help build community capacity?

A democratic, pluralistic and participatory state

The state is not just about public service delivery but forms an integral part of our democracy. It needs to be efficient and competent but also accountable and transparent. An active state should be in the business of sharing not hoarding power, accepting that power shared is not necessarily power constrained. It is sometimes suggested that there is a tension between making the state more democratic and accountable – for example, through decentralisation and public participation – and making it a more efficient deliverer of public services. Instead, constitutional and democratic reform and public service transformation should be seen as two sides of the same coin.
The smarter state programme will run from 2009-2011. It aims to:

- Develop original, expert, and thought provoking analysis and research
- Influence and shape the policy agenda with a number of timely and innovative policy solutions
- Provide robust testing of policy ideas based on expertise and insight from practical experience.
- Provide a hub for new thinking on the role of the state, bringing together ippr and PwC specialists, policy-makers, practitioners, and users from across the public, private and voluntary sector to share knowledge and disseminate new insights and thinking.

The programme will generate a number of outputs, including:

- Publication of 'smarter state' research and policy-briefings
- High-profile seminars
- Round-table discussions with key stakeholders
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About PricewaterhouseCoopers

PricewaterhouseCoopers’ Government & Public Sector practice has been helping government and public sector organisations locally, regionally, nationally and internationally for many years. We work with organisations across sectors as diverse as health, education, transport, home affairs, criminal justice, local government, housing, social welfare, defence and international development.

Our people combine deep specialist expertise with a genuine understanding of the public sector. Our Government and Public sector practice now comprises of approximately 1,300 people, over half of whom people work in our consulting business, with the remainder in assurance and tax.

The Smarter State forms part of our Forward Thinking programme which provides a platform for new thinking by bringing together politicians, policy makers and shapers, market experts and practitioners to share knowledge and provide new insight on the most pressing challenges being faced in the public sector today and in the future. For more information please visit our Public Sector Research Centre at: www.psrc-pwc.com

About ippr

The Institute for Public Policy Research is the UK’s leading progressive think tank, producing cutting-edge research and innovative policy ideas for a just, democratic and sustainable world.

Since 1988, we have been at the forefront of progressive debate and policymaking in the UK. Through our independent research and analysis we define new agendas for change and provide practical solutions to challenges across the full range of public policy issues.

With offices in both London and Newcastle, we ensure our outlook is as broad-based as possible, while our international and migration teams and climate change programme extend our partnerships and influence beyond the UK, giving us a truly world-class reputation for high quality research.